

# Sopharma Group

**Sell**

Maintained

Price: BGN 3.60  
Price target: BGN 3.48  
(From BNG 3.00)

## New pharmacy powerhouse? Hard to say

We maintain our **SELL** recommendation on Sopharma, with an updated price target of BGN 3.48/share, or downside of c.3%. The pandemic laid bare the limitations of Sopharma's drug production business, but also saw the closing of the acquisition, from its major shareholders, of a sizable retail pharmacy portfolio for c.BGN 17m (to be paid over five years). Despite the limited data available, our instinct is to take a constructive view on the retail expansion and adjust our forecasts accordingly. We also flag the company's assertions that internal restructuring is bearing its first fruits in terms of a cohesive commercial policies, which could, in theory, yield additional upside. Both, however, put the more important issue of transparency in the spotlight. We speculate that both developments could inject new life into the investment story but, unless Sopharma improves the disclosure of the operational KPIs for businesses under its umbrella, we are at a loss as how to credibly reflect it in our forecasts. Until this changes, we would allocate resources to stories where achieving visibility is less challenging.

**Improved earnings outlook following the pharmacy deal.** The turnover and gross margin of the trading business have improved markedly in the past two reported quarters (yoy by 19% and 310bps) due, we believe, to the acquisition of c.150 retail pharmacies last autumn. The company has provided no substantive details on the new business, much less an outlook; nonetheless, we have raised our 2021-23E sales by c.6%, with the EBITDA broadly unchanged because, while we raise our outlook on the trading (wholesale and retail) turnover and margin for the next three years by c.11% and 154bps, respectively, we have also cut our forecast revenues from own products by 14%, predominantly on the export markets. Simply put, demand has shifted in favour of generics for chronic ailments, at the expense of Sopharma's phytopharmaceuticals-heavy portfolio; product sales fell 7% yoy in 2020 and 19% yoy in 1Q21. We understand that sales may recover in 2H21E, as wholesalers' stocks are depleted, but from a materially lower base.

**Financial position largely unchanged since our initiation.** Working capital management improved to 105 days last year vs. 112 in 2019 (vs. the peer median of 11 days, vs. 13). but its gearing remains high, at 3.9x (1Q21). The additional EBITDA contribution from retail is likely to allow for some deleveraging; we see the end-2023E gearing at 3.4x, vs. 3.6x in our initiation.

**Directors approved plans in May, following EGM approval, to issue up to 44.9m warrants** (minimum 22.5m) at issue and strike prices of BGN 0.28 and BGN 4.71, respectively. We have not adjusted our EPS for the dilutive impact, which we estimate now at up to 25%. We understand that the proceeds will be used for expansion (M&A or otherwise), but the details will only be forthcoming once a prospectus has been filed.

**For this year, we see Sopharma trading at an EV/EBITDA of 8.6x and a PER of 12.4x, both a 4% discount** vs. our peer group, respectively. At our average 2022-23E EV/EBITDA of 7.7x, the stock is trading fully in line with its pharma wholesalers/producer peers; while, at our average PER of 9.7x, it is trading at a discount of c.16%.

### Expected events

Stand-alone 2Q21 results	30 July 2021
Consolidated 2Q21 results	30 August 2021
Stand-alone 3Q21 results	1 November 2021
Consolidated 3Q21 results	29 November 2021
Stand-alone 4Q21 results	31 January 2022
Consolidated 4Q21 results	1 March 2022
FY21 results	29 April 2022

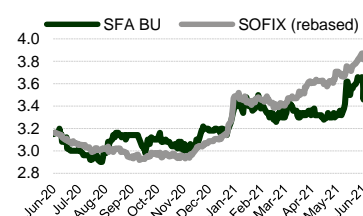
### Key data

Market Cap	EUR 248m
Free float	52.8%
Shares outstanding	134.8m
Major Shareholders	
Donev Investments	26.54%
Telecominvest	20.68%
6M ADTV	EUR 16.5k
Reuters Code	3JR.BB
Bloomberg Code	SFA BU
SOFIX Index	558

### Price performance

52-w range	BGN 2.90-3.66
52-w performance	13.9%
Relative performance	-8.5%

Sopharma 12M share price performance



Year	Sales BGN m	EBITDA BGN m	Net profit BGN m	EPS BGN	EPS %yoy	DPS BGN	P/E (x)	EV/EBITDA (x)	P/CE (x)	Div yield %
2018	1,179	72.3	28.3	0.23	-27%	0.05	18.0	12.1	17.1	1.2%
2019	1,282	103.7	87.0	0.69	207%	0.12	4.9	8.3	5.9	3.5%
2020	1,440	90.6	20.5	0.16	-76%	0.04	22.1	10.0	7.0	1.1%
2021E	1,536	107.6	36.6	0.29	79%	0.05	12.4	8.6	8.7	1.5%
2022E	1,631	115.4	42.8	0.34	17%	0.12	10.6	8.0	5.8	3.3%
2023E	1,710	124.4	51.3	0.41	20%	0.14	8.8	7.3	4.5	4.0%

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## Closing Prices as of 24 June 2021

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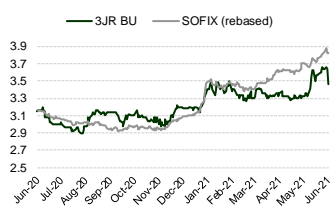
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# Company snapshot – SELL, PT BGN 3.48

## Sopharma

### SELL

Bloomberg ticker	3JR BU
Closing price (BGN)	3.60
Price Target	3.48
Upside to PT	-3.4%
Shares outstanding (m)	134.8
MCAP (EUR m)	248
Free float	52.8%
ADTV (EUR k)	16.5
52 W Range (BGN)	2.9-3.66



### COMPANY DESCRIPTION

Sopharma AD is a Bulgaria-based company that researches, manufactures, and trades drugs and chemical pharmaceutical preparations. The company produces and sells a broad spectrum of medicines, phytochemical products, and synthetic drug forms. Sopharma AD is located in Sofia, Bulgaria. It is a producer and exporter, with a strong regional presence. The product portfolio of the company consists of more than 200 products. The company produces and markets medicinal substances and dosage forms; and conducts research, engineering and implementation activities in the field of phytochemistry, chemistry and pharmaceuticals. Sopharma AD provides services related to production, as well as to ancillary and service activities. Sopharma AD is a subsidiary of the Sopharma Group, which is a leading producer and distributor of health-related products. The business model is vertically integrated, running through the whole value chain.

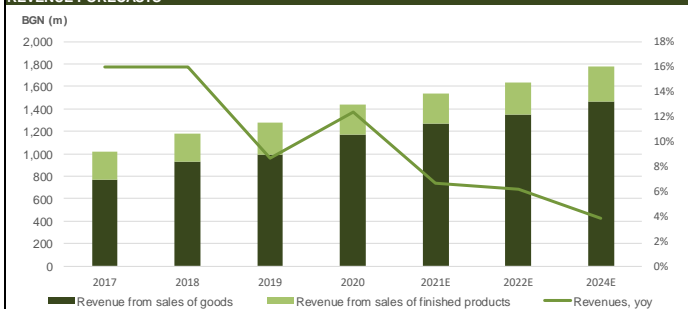
### RATIOS

PER SHARE RATIOS	2018	2019	2020	2021E	2022E	2023E	VALUATION RATIOS	2018	2019	2020	2021E	2022E	2023E
EPS	0.23	0.69	0.16	0.29	0.34	0.41	P/E	18.0x	4.9x	22.1x	12.4x	10.6x	8.8x
CFPS	0.24	0.58	0.51	0.42	0.62	0.80	EV/EBITDA	12.1x	8.3x	10.0x	8.6x	8.0x	7.3x
BVPS	3.53	4.13	4.10	4.30	4.45	4.64	P/CF	17.1x	5.9x	7.0x	8.7x	5.8x	4.5x
DPS	0.05	0.12	0.04	0.05	0.12	0.14	P/BV	1.1x	0.8x	0.9x	0.8x	0.8x	0.8x
<b>FINANCIAL RATIOS</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	EV/Capital Employed	1.3x	1.2x	1.2x	1.1x	1.1x	1.1x
Gross margin	30.0%	31.5%	27.6%	28.2%	28.2%	28.2%	EV/Sales	0.7x	0.7x	0.6x	0.6x	0.6x	0.5x
EBITDA margin	6.1%	8.1%	6.3%	7.0%	7.1%	7.3%	EV/EBIT	22.4x	14.5x	20.6x	17.3x	15.1x	12.8x
EBIT margin	3.3%	4.7%	3.1%	3.5%	3.8%	4.2%	Cash flow- Ops, BGN (m)	29.8	72.4	64.7	52.3	78.2	100.3
Net margin	2.4%	6.8%	1.4%	2.4%	2.6%	3.0%	EV, BGN (m)	878.0	863.3	907.2	926.0	927.8	910.5
ROE	6.0%	16.9%	3.7%	6.5%	7.3%	8.4%	FCF, BGN (m)	-11.0	10.1	64.8	1.0	27.3	54.2
ROCE	5.2%	8.0%	4.5%	5.8%	6.3%	7.2%	FCF yield	-2.2%	2.4%	14.3%	0.2%	6.0%	12.0%
Net debt/EBITDA	4.1x	3.7x	4.5x	4.0x	3.7x	3.3x	Dividend yield	1.2%	3.5%	1.1%	1.5%	3.3%	4.0%
Net debt/(cash) to equity	0.6x	0.7x	0.7x	0.7x	0.7x	0.7x							

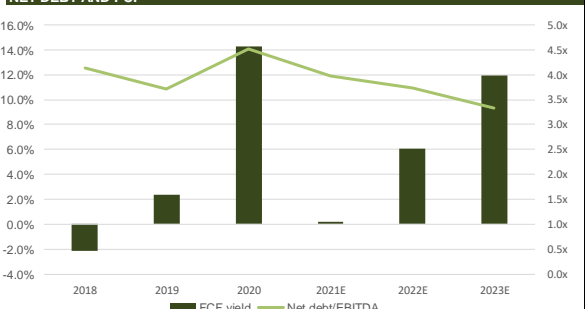
### COMPANY FINANCIALS

INCOME STATEMENT, BGN (m)	2018	2019	2020	2021E	2022E	2023E	BALANCE SHEET, BGN (m)	2018	2019	2020	2021E	2022E	2023E
Sale of Goods	928	993	1,171	1,267	1,345	1,409	<b>Current Assets</b>	<b>530</b>	<b>549</b>	<b>612</b>	<b>679</b>	<b>735</b>	<b>755</b>
Sale of Finished Products	251	289	269	269	285	301	Cash and equivalents	26	28	25	30	49	42
<b>Revenues</b>	<b>1,179</b>	<b>1,282</b>	<b>1,440</b>	<b>1,536</b>	<b>1,631</b>	<b>1,710</b>	Receivables	236	256	251	296	314	325
COGS	-826	-879	-1,043	-1,103	-1,171	-1,227	Inventories	236	230	288	305	323	339
<b>Gross profit</b>	<b>354</b>	<b>403</b>	<b>397</b>	<b>433</b>	<b>460</b>	<b>483</b>	Other	33	36	49	49	49	49
Operating expenses	-281	-299	-306	-326	-344	-358	<b>Long Term Assets</b>	<b>481</b>	<b>626</b>	<b>630</b>	<b>624</b>	<b>619</b>	<b>610</b>
<b>EBITDA</b>	<b>72</b>	<b>104</b>	<b>91</b>	<b>108</b>	<b>115</b>	<b>124</b>	PP&E	325	379	396	394	393	388
Depreciation and Amortization	-33	-44	-47	-54	-54	-53	Intangibles	62	43	58	54	50	46
Operating profit	39	60	44	54	61	71	Investments in JV	20	63	63	63	63	63
Finance Costs (net) and Other	-9	27	-33	-16	-19	-19	Other	74	142	113	113	113	113
<b>Profit before tax</b>	<b>35</b>	<b>88</b>	<b>25</b>	<b>46</b>	<b>52</b>	<b>62</b>	<b>Total Assets</b>	<b>1,011</b>	<b>1,175</b>	<b>1,242</b>	<b>1,303</b>	<b>1,354</b>	<b>1,365</b>
Tax	-5	-4	-5	-6	-7	-8	<b>Total Current Liabilities</b>	<b>433</b>	<b>484</b>	<b>544</b>	<b>581</b>	<b>626</b>	<b>616</b>
Minority interest	2	-3	0	4	3	3	Trade payables	124	116	165	176	187	196
<b>Net profit</b>	<b>28.3</b>	<b>87.0</b>	<b>20.5</b>	<b>36.6</b>	<b>42.8</b>	<b>51.3</b>	ST loans	258	292	286	320	354	334
							Other	51	76	93	85	86	86
<b>CASH FLOW, BGN (m)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Total Non-current Liabilities</b>	<b>69</b>	<b>115</b>	<b>131</b>	<b>129</b>	<b>117</b>	<b>113</b>
Revenue from contracts with customers	1,201.7	1,215.4	1,375.6	1,481.6	1,598.3	1,686.9	Long-term debt	41	57	35	32	21	17
Payments to suppliers	-1,142.1	-1,144.0	-1,341.0	-1,444.9	-1,530.8	-1,590.3	Other	28	59	96	96	96	96
Payments for wages and social security	-110.7	-120.3	-129.2	-140.2	-147.0	-153.5	<b>Total shareholders' equity</b>	<b>476</b>	<b>556</b>	<b>553</b>	<b>580</b>	<b>599</b>	<b>626</b>
Taxes paid (profit tax excluded)	-56.2	-62.1	-63.4	-73.0	-77.5	-81.3	Minority interests	33	19	13	13	12	11
Other	-8.4	-9.0	-13.3	-11.3	-12.5	-12.9	<b>Total Liab. &amp; equity</b>	<b>1,011</b>	<b>1,175</b>	<b>1,242</b>	<b>1,303</b>	<b>1,354</b>	<b>1,365</b>
<b>CF from Operations</b>	<b>-123.8</b>	<b>-128.4</b>	<b>-179.2</b>	<b>-194.7</b>	<b>-177.4</b>	<b>-160.3</b>	Net Debt	299	384	409	428	431	415
CAPEX	-27.2	-39.0	-24.7	-47.9	-48.9	-44.1	Net Working Capital	380	405	422	474	499	518
<b>CF from Investments</b>	<b>-41.2</b>	<b>-104.2</b>	<b>1.5</b>	<b>-50.4</b>	<b>-50.9</b>	<b>-46.1</b>	Capital Employed	677	751	783	837	857	866
Change in debt	40	49	-28	32	22	-24	Total Debt	299	348	321	353	375	351
Proceeds from Factoring	154	201	244	247	256	261							
Interest Paid	-2	-2	-2	-2	-2	-2							
Dividends Paid	-23	-3	-23	-9	-11	-19							
<b>Cash from financing activities</b>	<b>166.5</b>	<b>235.9</b>	<b>175.7</b>	<b>250.8</b>	<b>247.9</b>	<b>199.2</b>							

### REVENUE FORECASTS



### NET DEBT AND FCF



# Valuation

## DCF

We value Sopharma using a 10Y DCF model, with a multiples valuation as a sanity check. On this basis, we arrive at a DCF-based 12M PT of BGN 3.48/share (previously BGN 3.00/share), or downside of c.3% to the current level. The key assumptions in our DCF model include:

- ✓ A WACC of 8.1% (9.7% previously), starting with a risk free rate of 5% for Bulgaria and an equity risk premium of 6.0% (both unchanged).
- ✓ We apply a levered beta of 1.24x (1.86x previously), starting with an unlevered beta from the Damodaran sector beta database of 0.80x (1.05x previously) for emerging market drug producers and 0.50x (0.80x previously) for emerging market healthcare support services. We use the same 60/40 weighting for the drug producer and healthcare support services betas, respectively.
- ✓ We calculate the terminal value as the average of: 1) the perpetuity with a 1% terminal growth rate; and 2) an exit EV/EBITDA of 7.0x (both unchanged).

### DCF valuation

BGN m	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	53.7	61.5	71.2	77.8	83.0	86.1	89.3	92.8	96.7	100.7
NOPLAT	46.7	53.5	61.9	67.7	72.2	74.9	77.7	80.7	84.2	87.6
Depreciation	53.9	53.9	53.2	52.0	50.3	49.8	49.3	48.6	47.7	46.7
Change in NWC	-51.8	-25.6	-18.3	-18.7	-17.9	-16.6	-16.2	-16.8	-17.3	-17.8
Capex	-47.9	-48.9	-44.1	-44.7	-38.5	-39.4	-40.2	-41.1	-41.9	-42.8
<b>FCF</b>	<b>0.8</b>	<b>32.9</b>	<b>52.8</b>	<b>56.2</b>	<b>66.1</b>	<b>68.7</b>	<b>70.5</b>	<b>71.4</b>	<b>72.6</b>	<b>73.6</b>
<b>PV of FCF</b>	<b>0.8</b>	<b>30.4</b>	<b>45.2</b>	<b>44.5</b>	<b>48.4</b>	<b>46.6</b>	<b>44.3</b>	<b>41.5</b>	<b>39.0</b>	<b>36.6</b>

	I. Perpetuity (g=1%)	II. EV/EBITDA (7x)		
Sum of PV	341	341	<b>Risk-Free Rate</b>	<b>5.0%</b>
PV of Terminal value	517	509	Levered Beta	1.24
<b>Total EV</b>	<b>858</b>	<b>850</b>	Risk premium	6.0%
Net Debt (2020A)	-400	-400	<b>Cost of Equity</b>	<b>12.4%</b>
Minority interest	-13	-13	Cost of Debt	3.5%
Provisions	-7	-7	Tax Rate	13.0%
Equity value	438	429	Effective Cost of Debt	3.0%
Equity value (BGN/sh)	3.25	3.19	Weight of Equity	53.6%
<b>Average</b>	<b>3.22</b>		Weight of Debt	46.4%
<b>12M PT</b>	<b>3.48</b>		<b>WACC</b>	<b>8.1%</b>

Source: WOOD Research

### PT sensitivity to WACC and terminal growth rate

WACC/terminal growth	-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
<b>6.1%</b>	4.39	4.76	5.18	5.68	6.28	7.00	7.91	9.07	10.61
<b>6.6%</b>	3.85	4.15	4.50	4.91	5.39	5.97	6.67	7.54	8.66
<b>7.1%</b>	3.37	3.63	3.92	4.26	4.65	5.11	5.67	6.34	7.18
<b>7.6%</b>	2.95	3.17	3.41	3.70	4.02	4.40	4.84	5.38	6.03
<b>8.1%</b>	2.57	2.76	2.97	3.21	<b>3.48</b>	3.79	4.16	4.59	5.10
<b>8.6%</b>	2.24	2.40	2.58	2.78	3.01	3.27	3.57	3.92	4.34
<b>9.1%</b>	1.93	2.07	2.23	2.40	2.60	2.82	3.07	3.36	3.70
<b>9.6%</b>	1.66	1.78	1.91	2.06	2.23	2.42	2.63	2.88	3.16
<b>10.1%</b>	1.41	1.51	1.63	1.76	1.91	2.07	2.25	2.45	2.69

Source: WOOD Research

## Peer valuation table

Name	Country	Price (LCU)	Mkt Cap (EURm)	PER			EV/EBITDA			EBITDA margin		
				21E	22E	23E	21E	22E	23E	21E	22E	23E
<b>SOPHARMA AD SOFIA</b>	<b>BP</b>	<b>3.60</b>	<b>248</b>	<b>12.4</b>	<b>10.6</b>	<b>8.8</b>	<b>8.6</b>	<b>8.0</b>	<b>7.3</b>	<b>7.0%</b>	<b>7.1%</b>	<b>7.3%</b>
<b>Healthcare Service Providers</b>												
MCKESSON CORP	US	189.2	24,574	11.0	9.8	9.1	8.3	7.5	6.3	1.8%	1.8%	1.8%
WALGREENS BOOTS ALLIANCE INC	US	51.9	37,646	11.0	10.1	9.5	13.6	7.6	7.3	4.8%	5.1%	4.9%
AMERISOURCEBERGEN CORP	US	116.9	20,368	13.4	11.7	10.8	8.7	7.8	5.7	1.3%	1.4%	1.4%
CARDINAL HEALTH INC	US	56.4	13,732	9.4	9.2	8.6	7.2	6.3	5.8	1.8%	1.8%	1.7%
OWENS & MINOR INC	US	44.39	2,801	11.1	13.2	11.7	8.9	9.1	8.4	5.0%	4.4%	4.4%
SIGMA HEALTHCARE LTD	AU	0.59	395	21.9	18.4	14.4	10.8	8.9	6.6	2.3%	2.6%	2.7%
JOINTOWN PHARMACEUTICAL-A	CH	15.2	3,700	10.8	9.7	8.3	12.0	9.8	8.4	3.9%	4.0%	4.1%
CHINA NATIONAL MEDICINES-A	CH	33.1	3,236	n/a	n/a	n/a	10.8	9.3	7.7	4.5%	4.7%	5.0%
ORIOLA CORP -B	FI	1.86	351	26.6	19.2	15.9	7.6	6.3	5.8	3.4%	3.9%	4.0%
<b>Pharmaceutical producers</b>												
PERRIGO CO PLC	IR	46.5	5,216	18.0	16.2	14.9	13.5	9.8	9.6	16%	17%	17%
LANNETT CO INC	US	4.58	159	84.7	65.4	10.6	9.1	8.0	7.0	17%	19%	20%
DERMAPHARM HOLDING SE	GE	69.9	3,763	22.6	22.1	21.1	14.4	14.2	13.9	30%	29%	30%
KRKA	SV	100.5	3,296	11.2	10.1	n/a	6.6	5.7	n.a.	29%	30%	n.a.
RICHTER GEDEON NYRT	HU	8,205	4,353	13.9	12.7	11.6	8.3	7.7	6.8	28%	29%	28%
HIKMA PHARMACEUTICALS PLC	JO	33.4	9,039	18.2	15.7	14.3	11.6	9.8	8.8	29%	29%	29%
TEVA PHARMACEUTICAL-SP ADR	IS	10.1	9,313	3.9	3.6	3.5	7.3	6.1	5.4	30%	31%	32%
<b>Peers median</b>				<b>12.9</b>	<b>12.2</b>	<b>10.8</b>	<b>8.9</b>	<b>8.0</b>	<b>7.2</b>			
<i>Sopharma vs. peer median</i>				<i>-4%</i>	<i>-13%</i>	<i>-18%</i>	<i>-4%</i>	<i>0%</i>	<i>2%</i>			

Source: Bloomberg, WOOD Research

As a sanity check for our DCF valuation, we look at Sopharma's three-year forward earnings, vs. the median peer multiples for both healthcare service providers – here, primarily drug distributors – and pharmaceuticals producers. For the latter group, we have tried to select from peers that have a similar production portfolio to Sopharma (e.g., Perrigo, Dermapharm), are similar in terms of region (e.g., Krka). In the end, we see that the median multiples for both groups continue are rather similar – EV/EBITDA multiples in a range of 8-9x – regardless of the very disparate levels of profitability that characterise the two different sectors.

On this basis, not applying any trading premia or discounts, on forward PER multiples, we would see a fair value for Sopharma of BGN 3.81/share, or c.6% higher than the current level and c.10% higher than our 12M DCF PT. On the forward EV/EBITDA multiples, we would see a fair value for the stock of BGN 3.75/share, or 4% above the current share price. The average of the two is BGN 3.78/share, which is 9% higher than our 12M PT, and 5% upside above the current share price. We note that, compared to our initiation report, of the c.BGN 0.5/share increase in the multiples-based equity fair value, c.40% comes from higher earnings for the next three years, while the remaining c.60% is from peer multiples expansion.

### Peer multiples valuation

	PER	EV/EBITDA
Peer group avg. multiples 2021-23E	11.8	8.0
Average 2021-23E earnings forecast	44	116
<b>EV</b>		926
Net debt (2019)		-400
Minority interest		-13
Provisions		-7
<b>Equity value</b>	<b>514</b>	<b>506</b>
Price target (BGN/sh)	3.81	3.75
Weight	50%	50%
<b>Weighted price target (BGN/sh)</b>		<b>3.78</b>

Source: Bloomberg, WOOD Research

# Financials

## Income statement

BGN m	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Revenue from sales of goods	767.6	928.3	993.1	1,170.5	1,266.5	1,345.2	1,408.6	1,465.0
Revenue from sales of finished products	249.5	250.8	288.5	269.4	269.4	285.5	301.3	310.6
<b>Revenue from contracts with customers</b>	<b>1,017.1</b>	<b>1,179.1</b>	<b>1,281.6</b>	<b>1,439.9</b>	<b>1,535.9</b>	<b>1,630.7</b>	<b>1,709.9</b>	<b>1,775.6</b>
Other operating income/(losses), net	6.7	11.8	12.4	10.2	9.8	10.3	10.7	11.1
Changes in inventories	8.7	8.8	-3.5	1.9	4.1	0.0	0.0	0.0
Materials	-90.2	-91.3	-93.2	-89.3	-88.4	-92.7	-96.9	-99.9
Third party services	-63.5	-75.9	-75.2	-80.5	-86.2	-88.5	-91.5	-93.2
Employee benefits	-101.4	-119.4	-127.1	-133.1	-149.1	-156.4	-163.2	-168.1
Carrying amount of goods sold	-680.0	-825.6	-878.5	-1,043.1	-1,102.6	-1,171.1	-1,227.0	-1,277.6
Other operating expenses	-11.5	-15.3	-12.8	-15.5	-16.0	-16.9	-17.5	-18.0
<b>EBITDA</b>	<b>85.9</b>	<b>72.3</b>	<b>103.7</b>	<b>90.6</b>	<b>107.6</b>	<b>115.4</b>	<b>124.4</b>	<b>129.8</b>
Depreciation and amortizations	-30.1	-33.1	-44.0	-46.6	-53.9	-53.9	-53.2	-52.0
<b>Profit from operations</b>	<b>55.8</b>	<b>39.1</b>	<b>59.7</b>	<b>44.0</b>	<b>53.7</b>	<b>61.5</b>	<b>71.2</b>	<b>77.8</b>
Other impairment of non-current assets	-0.7	-0.2	-18.9	-4.5	0.0	0.0	0.0	0.0
Finance income	8.4	4.0	11.0	5.1	5.9	5.5	5.7	5.8
Finance costs	-11.6	-9.7	-12.4	-19.1	-14.8	-15.7	-15.6	-15.0
Finance income / (costs), net	-3.3	-5.7	-1.4	-14.0	-8.9	-10.2	-10.0	-9.2
Gain from associates and joint ventures, net	0.4	2.1	44.7	0.2	1.4	1.0	1.0	1.0
Gain on acquisition and disposal of subsidiaries	0.0	0.0	4.4	-0.3	0.0	0.0	0.0	0.0
<b>Profit before income tax</b>	<b>52.4</b>	<b>35.3</b>	<b>88.4</b>	<b>25.4</b>	<b>46.2</b>	<b>52.3</b>	<b>62.2</b>	<b>69.6</b>
Income tax expense	-6.6	-4.7	-4.1	-5.4	-6.0	-6.8	-8.1	-9.0
Non-controlling interests	5.8	2.3	-2.6	-0.5	3.7	2.7	2.9	2.7
<b>Net profit to equity holders</b>	<b>40.0</b>	<b>28.3</b>	<b>87.0</b>	<b>20.5</b>	<b>36.6</b>	<b>42.8</b>	<b>51.3</b>	<b>57.9</b>
Average shares for EPS	125.8	125.8	125.9	125.8	125.8	125.8	125.8	125.8
<b>EPS</b>	<b>0.31</b>	<b>0.23</b>	<b>0.69</b>	<b>0.16</b>	<b>0.29</b>	<b>0.34</b>	<b>0.41</b>	<b>0.46</b>
<b>DPS</b>	<b>0.11</b>	<b>0.05</b>	<b>0.12</b>	<b>0.04</b>	<b>0.05</b>	<b>0.12</b>	<b>0.14</b>	<b>0.16</b>
Revenues, yoy	16%	16%	9%	12%	7%	6%	5%	4%
EBITDA, yoy	17%	-16%	43%	-13%	19%	7%	8%	4%
Operating profit, yoy	24%	-30%	52%	-26%	22%	15%	16%	9%
Net profit, yoy	-21%	-29%	207%	-76%	79%	17%	20%	13%
<b>EBITDA margin</b>	<b>8.4%</b>	<b>6.1%</b>	<b>8.1%</b>	<b>6.3%</b>	<b>7.0%</b>	<b>7.1%</b>	<b>7.3%</b>	<b>7.3%</b>
Operating margin	5.5%	3.3%	4.7%	3.1%	3.5%	3.8%	4.2%	4.4%
Net margin	3.9%	2.4%	6.8%	1.4%	2.4%	2.6%	3.0%	3.3%

Source: Company data, WOOD Research

## Balance sheet

BGN m	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Property, plant and equipment	317.6	324.5	378.6	395.9	394.2	393.4	388.0	384.2
Intangible assets	63.4	62.2	42.8	58.3	53.9	49.8	45.9	42.5
Goodwill	23.1	23.5	15.9	13.3	13.3	13.3	13.3	13.3
Investment properties	9.8	10.4	10.9	11.7	11.7	11.7	11.7	11.7
Investments in associated and joint companies	19.5	20.4	63.0	62.8	62.8	62.8	62.8	62.8
Other long - term equity investments	8.0	8.6	10.1	14.3	14.3	14.3	14.3	14.3
Long-term receivables from related parties	20.6	23.1	91.8	59.7	59.7	59.7	59.7	59.7
Other long-term receivables	4.9	6.4	2.4	12.0	12.0	12.0	12.0	12.0
Deferred tax assets	1.3	1.6	10.7	2.0	2.0	2.0	2.0	2.0
<b>Non-current assets</b>	<b>468.4</b>	<b>480.7</b>	<b>626.2</b>	<b>629.9</b>	<b>623.9</b>	<b>618.9</b>	<b>609.7</b>	<b>602.5</b>
Inventories	218.1	235.8	229.9	287.6	304.7	323.5	339.2	352.2
Trade receivables	235.2	235.9	255.7	250.7	296.2	313.9	325.5	338.7
Receivables from related parties	4.7	9.9	7.1	6.7	8.3	8.3	8.3	8.3
Assets held for sale	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0
Other short-term receivables and assets	21.0	22.7	27.5	41.9	40.5	40.5	40.5	40.5
Cash and cash equivalents	33.3	25.6	27.5	25.3	29.6	49.2	41.9	35.9
Current assets	512.4	529.9	549.1	612.2	679.3	735.4	755.5	775.7
<b>Total assets</b>	<b>980.7</b>	<b>1,010.6</b>	<b>1,175.3</b>	<b>1,242.1</b>	<b>1,303.2</b>	<b>1,354.3</b>	<b>1,365.2</b>	<b>1,378.2</b>
Share capital	134.8	134.8	134.8	134.8	134.8	134.8	134.8	134.8
Reserves	53.6	55.7	61.0	57.7	57.7	57.7	57.7	57.7
Retained earnings	281.5	285.1	360.7	360.8	387.8	406.7	433.1	454.4
<b>Equity attributable to equity holders of the parent</b>	<b>469.9</b>	<b>475.6</b>	<b>556.4</b>	<b>553.3</b>	<b>580.3</b>	<b>599.2</b>	<b>625.6</b>	<b>646.9</b>
<b>Non-controlling interests</b>	<b>33.2</b>	<b>33.0</b>	<b>19.3</b>	<b>13.3</b>	<b>13.0</b>	<b>11.7</b>	<b>10.6</b>	<b>9.3</b>
Long-term bank loans	50.5	41.1	56.8	34.6	32.4	20.7	16.7	17.7
Deferred tax liabilities	13.7	11.8	8.2	7.9	7.9	7.9	7.9	7.9
Long-term liabilities to related parties	0.0	0.0	3.0	8.8	8.8	8.8	8.8	8.8
Long-term payables to personnel	5.5	6.0	6.6	7.3	7.3	7.3	7.3	7.3
Finance lease liabilities	2.0	2.5	25.8	49.6	49.6	49.6	49.6	49.6
Government grants	0.0	7.5	10.9	10.4	10.4	10.4	10.4	10.4
Other non-current liabilities	0.2	0.3	4.0	12.4	12.4	12.4	12.4	12.4
<b>Non-current liabilities</b>	<b>80.1</b>	<b>69.2</b>	<b>115.4</b>	<b>131.1</b>	<b>128.9</b>	<b>117.2</b>	<b>113.2</b>	<b>114.2</b>
Short-term bank loans	194.2	242.9	274.8	255.3	285.3	328.3	308.3	295.3
Short-term part of long-term bank loans	14.5	14.9	16.7	31.2	35.2	25.6	25.6	21.9
Trade payables	135.2	124.5	116.4	164.9	175.9	186.8	195.8	203.4
Payables to related parties	0.8	0.5	7.7	2.4	2.4	2.4	2.4	2.4
Factoring agreement liabilities	19.4	21.8	24.8	36.6	28.1	29.0	29.6	30.8
Short-term part of leasing obligations	0.0	1.2	10.0	18.0	18.0	18.0	18.0	18.0
Payables to personnel and social security	12.9	14.2	15.4	18.0	18.0	18.0	18.0	18.0
Tax payables	7.4	6.7	7.2	6.6	6.6	6.6	6.6	6.6
Other current liabilities	13.3	6.4	11.0	11.6	11.6	11.6	11.6	11.6
<b>Current liabilities</b>	<b>397.6</b>	<b>432.9</b>	<b>484.1</b>	<b>544.5</b>	<b>580.9</b>	<b>626.2</b>	<b>615.8</b>	<b>607.8</b>
<b>Total liabilities</b>	<b>477.6</b>	<b>502.1</b>	<b>599.5</b>	<b>675.5</b>	<b>709.8</b>	<b>743.3</b>	<b>729.0</b>	<b>722.0</b>
<b>Total liabilities and equity</b>	<b>980.7</b>	<b>1,010.6</b>	<b>1,175.3</b>	<b>1,242.1</b>	<b>1,303.2</b>	<b>1,354.3</b>	<b>1,365.2</b>	<b>1,378.2</b>
<b>Net Debt</b>	<b>247.2</b>	<b>298.7</b>	<b>384.5</b>	<b>408.6</b>	<b>427.7</b>	<b>430.7</b>	<b>414.6</b>	<b>406.0</b>
<i>Net debt/EBITDA</i>	2.9	4.1	3.7	4.5	4.0	3.7	3.3	3.1
<b>Capital employed</b>	<b>630.9</b>	<b>677.2</b>	<b>750.5</b>	<b>783.0</b>	<b>837.3</b>	<b>857.0</b>	<b>865.5</b>	<b>875.8</b>
<i>ROCE</i>	7.8%	5.2%	8.0%	4.5%	5.8%	6.3%	7.2%	7.8%
<b>Net working capital</b>	<b>343.9</b>	<b>379.9</b>	<b>405.2</b>	<b>422.0</b>	<b>473.8</b>	<b>499.4</b>	<b>517.7</b>	<b>536.4</b>
<i>NWC days</i>	121	112	112	105	106	109	109	108

Source: Company data, WOOD Research

## Cash flow

BGN m	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Revenue from contracts with customers	1,058.6	1,201.7	1,215.4	1,375.6	1,481.6	1,598.3	1,686.9	1,745.3
Payments to suppliers	-950.6	-1,142.1	-1,144.0	-1,341.0	-1,444.9	-1,530.8	-1,590.3	-1,654.3
Payments for wages and social security	-94.3	-110.7	-120.3	-129.2	-140.2	-147.0	-153.5	-158.1
Taxes paid, net	-57.2	-56.2	-62.1	-63.4	-73.0	-77.5	-81.3	-84.4
Profit tax paid, net	-6.1	-8.2	-8.5	-7.9	-6.9	-7.8	-9.3	-10.4
Paid interest and bank fees on WC loans	-5.4	-6.2	-8.0	-9.1	-9.3	-10.5	-10.9	-10.3
Exchange rate differences, net	-1.3	-0.9	0.2	-2.3	0.0	0.0	0.0	0.0
Other proceeds/(payments), net	-2.0	-1.3	-1.2	-2.0	-2.0	-2.0	-2.0	-2.0
<b>Net cash flows used in operating activities</b>	<b>-58.3</b>	<b>-123.8</b>	<b>-128.4</b>	<b>-179.2</b>	<b>-194.7</b>	<b>-177.4</b>	<b>-160.3</b>	<b>-174.2</b>
Purchase / disposals of PP&E and intangible asset, net	-17.3	-27.2	-39.0	-24.7	-47.9	-48.9	-44.1	-44.7
Purchase / disposals and dividends from equity investments, net	-0.8	-1.3	-1.3	-4.9	-3.3	-2.0	-2.0	-2.0
Purchase / disposals subsidiaries, net	-44.2	-1.3	7.3	0.9	0.8	0.0	0.0	0.0
Purchase / disposals of associated and JVs, net	-1.4	-0.2	4.6	0.0	0.0	0.0	0.0	0.0
Transactions with non-controlling interests, net	-9.8	-2.1	-5.7	-4.8	0.0	0.0	0.0	0.0
Change in loans to related parties	-2.0	-7.6	-66.3	32.6	0.0	0.0	0.0	0.0
Change in loans to third parties, net	-2.5	-2.3	-6.2	0.9	0.0	0.0	0.0	0.0
Interest received on loans and deposits	1.2	1.0	2.7	1.8	0.0	0.0	0.0	0.0
Other proceeds/(payments), net	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash flows used in investing activities</b>	<b>-76.8</b>	<b>-41.2</b>	<b>-104.2</b>	<b>1.5</b>	<b>-50.4</b>	<b>-50.9</b>	<b>-46.1</b>	<b>-46.7</b>
Change in short-term banks loans	11.6	48.9	32.2	-21.3	30.0	43.0	-20.0	-13.0
Change in long-term banks loans	27.0	-8.8	17.3	-6.7	1.9	-21.3	-4.0	-2.7
Change in loans from third parties	-0.5	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0
Proceeds from factoring	131.3	153.6	200.8	243.9	247.0	255.6	260.6	271.0
Interest and taxes for factoring paid	-0.3	-0.3	-0.4	-0.4	-0.5	-0.6	-0.6	-0.6
Interest and bank fees on investment purpose loans	-2.6	-1.3	-1.4	-1.7	-1.6	-1.4	-1.1	-1.0
Finance lease payments	-1.7	-2.2	-13.1	-16.8	-16.8	-16.8	-16.8	-16.8
Purchase of treasury shares	-17.0	-0.9	-0.8	0.3	0.0	0.0	0.0	0.0
Dividends paid	-15.5	-22.6	-3.5	-22.6	-9.0	-10.6	-18.9	-21.9
Other	3.2	0.2	5.0	1.0	0.0	0.0	0.0	0.0
<b>Net cash flows from financial activities</b>	<b>135.4</b>	<b>166.5</b>	<b>235.9</b>	<b>175.7</b>	<b>250.8</b>	<b>247.9</b>	<b>199.2</b>	<b>215.0</b>
<b>Increase / decrease in cash and equivalents</b>	<b>0.3</b>	<b>1.5</b>	<b>3.2</b>	<b>-2.0</b>	<b>5.7</b>	<b>19.6</b>	<b>-7.2</b>	<b>-6.0</b>
<b>FCF</b>	<b>44.9</b>	<b>-11.0</b>	<b>10.1</b>	<b>64.8</b>	<b>1.0</b>	<b>27.3</b>	<b>54.2</b>	<b>50.1</b>

Source: Company data, WOOD Research



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Date	Rating	Date	PT
06/07/2020	SELL – initiation of coverage	06/07/2020	BGN 3.00
		25/06/2021	BGN 3.48

A history of all WOOD&Co's investment research disseminated during the preceding 12-month period can be accessed via our website at <https://research.wood.com>.

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Company	Disclosures
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